

ROCKFORD HOUSING COMMISSION
ROCKFORD, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2007
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Rockford Housing Commission	County
Fiscal Year End March 31, 2007		Opinion Date July 12, 2007		Date Audit Report Submitted to State July 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


2007

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	See Management Comments Letter	
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	Zip 49686
		License Number 11050	

ROCKFORD HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Rockford Housing Commission
Rockford, Michigan

I have audited the accompanying financial statements of the business-type activities of Rockford Housing Commission, Michigan, a component unit of the City of Rockford, as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Rockford Housing Commission, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rockford Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated July 12, 2007, on my consideration of Rockford Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 9, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Rockford Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Rockford Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Samy E. Faudel, M. P.

July 12, 2007

**Rockford Housing Commission
59 S. Main Street
Rockford, MI 49341**

Karen C. Harig, Executive Director

As management of the Rockford Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Rockford Housing Commission's financial activities for the FYE 03/31/07. This discussion and analysis letter of the Rockford Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Rockford Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies, but HUD allows Housing Commission's with less than 250 low rent units to use 100% of the capital funds for operating purposes. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly

to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 03/31/07:

	<u>FYE</u> <u>03/31/07</u>	<u>FYE</u> <u>03/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing Operating				
Subsidy	\$ 47,207	\$ 42,156	\$ 5,051	11.98%
Capital Fund Program Grants	64,826	10,462	54,364	519.63%
Sec. 8 Voucher	<u>471,227</u>	<u>451,228</u>	<u>19,999</u>	<u>4.43%</u>
Total	<u>\$ 583,260</u>	<u>\$503,846</u>	<u>\$ 79,414</u>	<u>15.76%</u>

Please note that in the Capital Fund Program the expenditures during 2007 were equal to the Federal Assistance received during 2007 as noted in the above chart.

The subsidy for Section 8 remained relatively stable. The subsidy for Public Housing increased mainly due to increased utility costs. The increase in the Capital Fund Program was due to the fact that work projects during FYE 03/31/07 progressed along more rapidly than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 03/31/07 than in FYE 03/31/06.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>03/31/07</u>	<u>FYE</u> <u>03/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Cash & Investments	\$ 328,874	\$ 178,055	\$ 150,819	84.70%
Total Current Assets	587,062	435,573	151,489	34.78%
Fixed Assets, Net of				
Depreciation	715,303	794,669	(79,366)	-9.99%
Total Liabilities	42,256	41,746	510	1.22%
Total Equity/Net				
Assets	1,260,109	1,188,496	71,613	6.03%

Cash and investments increased by \$150,819 due to the Voucher program receiving \$66,545 more in funding than expended and the Low Rent Program while keeping operating expenses steady, had an increase in revenues from tenant rents of \$13,374 (due to several ceiling rents being paid now), interest income of \$4,599 (due to rate increases), laundry machine collections increasing by \$1,141, an increase in capital grant funding of \$54,364, and Low Rent subsidy's increasing by \$5,051, respectively.

Total Current Assets increased by \$151,489 for the same reasons as described in the prior paragraph.

Fixed Assets, net of depreciation decreased by \$79,366; this decrease represents depreciation of \$84,064 less \$4,700 from capital outlays.

Total Liabilities stayed stable, increasing by just 1.22%.

Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the decrease in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure increased due to the Operating Income of \$66,545 generated by the Housing Choice Voucher Program for FYE 03/31/07.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>03/31/07</u>	<u>FYE</u> <u>03/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues:				
Tenant Revenue	\$ 172,576	\$ 159,202	\$ 13,374	8.4%
Interest income	11,248	6,649	4,599	69.1%
Other Revenue	<u>6,385</u>	<u>5,091</u>	<u>1,294</u>	25.4%
Total PHA generated Revenue	190,209	170,942	19,267	11.2%
Operating Subsidy/Soft Cost Revenue	518,434	493,384	25,050	5.1%
Capital Grants(Hard costs)	<u>64,826</u>	<u>10,462</u>	<u>54,364</u>	519.6%
Total Revenue	<u>773,469</u>	<u>674,788</u>	<u>98,681</u>	14.6%
Expenses:				
Administrative	100,631	94,138	6,493	6.8%
Tenant Services	1,788	1,474	314	21.3%
Utilities	61,637	55,826	5,811	10.4%
Maintenance	54,162	52,411	1,751	3.3%
General	21,486	22,309	(823)	- 3.6%
Extraordinary maintenance	8,834	7,283	1,551	21.2%
Housing Assistance Payments	369,254	412,878	(43,624)	-10.5%
Depreciation	<u>84,064</u>	<u>86,913</u>	<u>(2,849)</u>	- 3.2%
Total Expenses	<u>701,856</u>	<u>733,232</u>	<u>(31,376)</u>	- 4.2%
Net Increase (Decrease)	<u>\$ 71,613</u>	<u>\$ (58,444)</u>		

Revenues:

Rockford Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost

revenue. Revenue received from HUD in FYE 03/31/07 for Public Housing and for Sec. 8 increased from FYE 03/31/06 to 03/31/07. For FYE 03/31/07, revenue generated by the Commission accounted for \$190,209 (or 24.5% of total revenue), while HUD contributions accounted for \$583,260 (or 75.5% of total revenue). Income generated by the Housing Commission increased in all revenue areas.

Expenses:

Total Expenses for FYE 03/31/06 were \$733,232 while for FYE 03/31/07 the total was \$701,856. This represents a 4.2% decrease in our Operating Costs, an amount that can be substantially attributed to less Housing Assistance Payments made during FYE 03/31/07, because not leasing up all available vouchers.

Net Increase/Decrease:

The net increase/decrease in the above table includes the effect of both depreciation charges and Hard Cost Capital Revenues. It should be noted that neither of these two line items flow into the Unrestricted Net Asset Accounts (Retained Earnings) and should not be taken into consideration when analyzing performance. That said, if we eliminate the effect of these two accounts, the net increase to our Unrestricted Net Asset accounts for FYE 03/31/06 was \$18,007 while the net increase for FYE 03/31/07 was \$90,851. The substantial increase to our bottom line was fueled primarily by the increased income generated by both our Public Housing Program (dwelling rental charges, interest income, and other income) and HUD subsidies and the reduction in Housing Assistance Payments.

Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 03/31/07 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts, except for utilities where the actual amount spent was \$8,556 over the budgeted amount.

Entity-Wide Operational Highlights:

The Rockford Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE 03/31/07</u>	<u>FYE 03/31/06</u>
Low Rent Public Housing	52	52
Sec. 8 Housing Choice Voucher	90	90

During FYE 03/31/07, Rockford Housing Commission maintained a lease-up rate of 99.0% in its Public Housing Program and a lease-up rate of 81.1% in its Section 8 program. The lease-up rates for the Public Housing Program is well in excess of HUD guidelines, but the Voucher Program is below the HUD guidelines.

During FYE 03/31/07, our Capital Fund Program work projects included:

- * Senior buildings: We purchased a shredder for \$1,699 and spent \$2,334 on architect fees.

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Asset Management Operating Fund Rule

The new Operating Fund rule requires Public Housing Agencies (PHAs) with 250 or more units to convert to asset management. The Department is currently developing detailed instructions associated with the implementation of these new asset management requirements (Project Based Accounting).

PHAs with 250 or more units must convert to asset management; and PHAs with fewer than 250 units can voluntarily convert. Below is a brief description of the implementation as June 2007.

Provisions of the OFND rule apply to Public Housing Agencies (PHAs) of all sizes.

In the long term, asset management is meant to include a broader strategic examination of a PHAs portfolio and its position with the local affordable housing market, considering such strategies as re-investment, refinancing, disposition, or replacement. In the near term, however, the Department does utilize the basic structure (building blocks) of asset-based funding, accounting, and performance monitoring.

Operating Fund (OFND):

Project-based funding: In calendar year (CY) 2007, PHAs will begin receiving operating subsidy under the new Operating Fund formula. A major component of that formula is the Project Expense Level (PEL).

The PEL is similar in concept to the current allowable expense level (AEL), except that it is computed at a project level.

For CY 2007, these PELs will be aggregated into an agency-wide figure, known as the Weighted Average Project Expense Level, or WAPEL.

The WAPEL is a formula generated by the Harvard Cost Study and involves constant, variables, and coefficients based on property

characteristics, occupancy types, neighborhood poverty rates, location, property size, age, and unit sizes.

In CY 2007, HUD implements the new Operating Fund Formula, based on the Harvard Cost Study and negotiated rulemaking. In this first year of implementation, HUD continues to fund at the "agency level". In CY 2008, HUD makes funding assignments at the project level.

Formula estimates show the Rockford Housing Commission to be a "gainer" under the new formula at approximately \$5,000 a month at this time (2007). Specific amounts are difficult to foresee as the formula for gainers and decliners will be implemented in transitional funding phases (50% for CY'07 and 100% in CY'08); while coupled with operating subsidies only being awarded on a percentage basis (current CY'07 being funded at 82% of eligibility). The funding forecast for the Rockford Housing Commission, however, does show an increase to operating subsidy revenues overall.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Karen C. Harig, Executive Director
Rockford Housing Commission
59 S. Main Street
Rockford, MI 49341

FINANCIAL STATEMENTS

ROCKFORD HOUSING COMMISSION
STATEMENT OF NET ASSETS
March 31, 2007
=====

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 328,874
Accounts receivable-miscellaneous	10
Accounts receivable-tenants	203
Investments	249,511
Prepaid expenses	<u>8,464</u>
Total Current Assets	<u>587,062</u>
Capital Assets:	
Land	23,764
Buildings	746,117
Equipment	158,537
Building improvements	<u>1,315,035</u>
	2,243,453
Less: accumulated depreciation	<u>(1,528,150)</u>
Net Capital Assets	<u>715,303</u>
Total Assets	<u>\$ 1,302,365</u>

See notes to financial statements

ROCKFORD HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2007
=====

LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 16,905
Tenant security deposit liability	6,470
Accrued expenses	7,053
Deferred revenues	<u>1,538</u>

Total Current Liabilities	31,966
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Noncurrent liabilities:

Accrued compensated absences	<u>10,290</u>
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Total Liabilities	<u>42,256</u>
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Net Assets:

Invested in capital assets	715,303
Unrestricted net assets	<u>544,806</u>

Total Net Assets	<u>1,260,109</u>
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Total Liabilities and Net Assets	<u><u>\$ 1,302,365</u></u>
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See notes to financial statements

ROCKFORD HOUSING COMMISSION
**STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS**
 Year Ended March 31, 2007
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OPERATING REVENUES:

Dwelling rent	\$ 172,576
Nondwelling rent	<u>2,352</u>
Total operating revenues	<u>174,928</u>

OPERATING EXPENSES:

Administration	100,631
Tenant services	1,788
Utilities	61,637
Ordinary maintenance and operation	54,162
General expenses	21,486
Housing assistance payments	369,254
Extraordinary maintenance	8,834
Depreciation	<u>84,064</u>
Total operating expenses	<u>701,856</u>

Operating income(loss)	<u>(526,928)</u>
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NONOPERATING REVENUES:

Investment interest income	11,248
Other income	4,033
Capital grants	4,033
Operating grants	<u>579,227</u>

Total nonoperating revenues	<u>598,541</u>
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Change in net assets	71,613
Net assets, beginning	<u>1,188,496</u>
Net assets, ending	<u><u>\$ 1,260,109</u></u>

See notes to financial statements

ROCKFORD HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended March 31, 2007
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 174,713
Cash payments to other suppliers of goods and services	(493,574)
Cash payments to employees for services	(115,622)
Cash payments for in lieu of taxes	<u>(9,179)</u>
Net cash (used) by operating activities	<u>(443,662)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Tenant security deposits	640
Operating grants	579,227
Other revenue	<u>4,033</u>
Net cash provided by noncapital financing activities	<u>583,900</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

Capital grants	4,033
Payments for capital acquisitions	<u>(4,700)</u>
Net cash (used) by capital and related financing activities	<u>(667)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>11,248</u>
Net cash provided by investing activities	<u>11,248</u>

Net increase(decrease) in cash	150,819
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Cash and cash equivalents, beginning	<u>178,055</u>
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Cash and cash equivalents, ending	<u><u>\$ 328,874</u></u>
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ROCKFORD HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2007
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RECONCILIATION OPERATING INCOME(LOSS)
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:

Operating income(loss)	\$(526,928)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	84,064
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(197)
Prepaid expenses	(471)
Increase (decrease) in liabilities:	
Accounts payable	(15)
Accrued wage/payroll taxes payable	(454)
Accrued compensated absences	(314)
Accounts payable-PILOT	671
Deferred revenues	<u>(18)</u>
Net cash (used) by operating activities	<u><u>\$(443,662)</u></u>

See notes to financial statements

ROCKFORD HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2007
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rockford Housing Commission (the Housing Commission) is a component unit of the City of Rockford, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Rockford on March 11, 1968, consisting of a five member board appointed by the City Manager. The Housing Commission was established to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1(a) Financial Reporting Entity

The Housing Commission's financial reporting entity is comprised of the following:

Primary Government: Rockford Housing Commission

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

Program	Brief Description
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing commission to modernize public housing developments.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low-income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.

1(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1(d) Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2(b) and 3(a).

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission adopts a formal operating budget each year for it's operating programs and on a project length basis for it's capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Housing Commission use estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$500 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses, and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	20-40 years
Building improvements	20-40 years
Equipment - dwelling	5- 7 years
Equipment - administration	5- 7 years

Compensated Absences

The Housing Commission's policies regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends.

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave: An employee who is permanently separated shall be paid in a lump sum at his/her current rate of pay

for all unused vacation leave.

- * Sick leave: Sick pay is earned at a rate of one day per month and can accumulate a maximum of 150 sick days. No sick leave shall accumulate beyond the one-hundred fifty days. An employee who has accrued up to the one-hundred fifty days is eligible to receive fifty percent (50%) of that time upon termination or retirement. Payment will be made at the employee's most current rate of pay.
- * Personal leave: Personal leave is earned at a rate of two days per year. Unused personal leave cannot be accumulated.

The amount of accumulated benefits at March 31, 2007, was \$16,895, and is recorded as a liability in the Low Rent Program.

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.
- b. Unrestricted net assets: All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Housing Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows:

2(a) Program Accounting Requirements

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD
Housing Choice Voucher Program	U.S. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written collateral agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2(c) Revenue Restrictions

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the fiscal year ended March 31, 2007, the Housing Commission was in compliance in all material respects, with these revenue restrictions. The Housing Commission has less than 250 low rent units, and is permitted by HUD to spend more than 20% of its Capital Fund grant monies for operating purposes.

2(d) Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 3: DETAIL NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3(a) Cash and Investments

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at March 31, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	<u>\$329,612</u>	<u>\$329,612</u>	<u>\$</u>	<u>\$</u>	<u>\$ 328,824</u>

Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Note 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at March 31, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2 - Uninsured and unregistered with securities held by counterparty's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Housing Commission's name.

	<u>Custody Credit Risk</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Governmental Funds	\$ 169,511	\$	\$	\$ 169,511	\$ 169,511
Certificates of deposits	<u>80,000</u>	<u></u>	<u></u>	<u>80,000</u>	<u>80,000</u>
	<u>\$ 249,511</u>	<u>\$</u>	<u>\$</u>	<u>\$ 249,511</u>	<u>\$ 249,511</u>

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Cash on hand	\$ 50
Carrying amount of deposits	328,824
Investments	<u>249,511</u>
Total	<u>\$ 578,385</u>
Cash and investments:	
Enterprise activities	\$ 579,173
Enterprise activities - checks written in excess of deposits	<u>(788)</u>
Total	<u>\$ 578,385</u>

3(b) Accounts Receivable

Receivables detail at March 31, 2007, is as follows:

Accounts receivable-miscellaneous	\$	10
Tenant accounts receivable		203
	\$	<u>213</u>

3(c) Capital Assets

Capital asset activity for the year ended March 31, 2007 was as follows:

	<u>Balance</u> <u>03/31/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/07</u>
Low Rent Program				
Land	\$ 23,764	\$	\$	\$ 23,764
Buildings	743,783			743,783
Furniture, equip. & machinery - dwellings	53,103	409		53,512
Furniture, equip. & machinery - administration	79,799	258		80,057
Building improvements	<u>1,315,035</u>			<u>1,315,035</u>
	2,215,484	<u>\$ 667</u>	<u>\$</u>	2,216,151
Less accumulated depreciation	<u>(1,420,815)</u>	<u>\$ (83,985)</u>	<u>\$</u>	<u>(1,504,800)</u>
Total	<u>\$ 794,669</u>			<u>\$ 711,351</u>
Capital Fund Program				
Buildings	\$	\$ 2,334	\$	\$ 2,334
Furniture, equip. & machinery - administration		<u>1,699</u>		<u>1,699</u>
		<u>\$ 4,033</u>	<u>\$</u>	<u>4,033</u>
Less accumulated depreciation		<u>\$ 81</u>	<u>\$</u>	<u>(81)</u>
Total	<u>\$</u>			<u>\$ 3,952</u>
Housing Choice Voucher Program				
Furniture, equip. & machinery - administration	\$ 23,269	\$	\$	\$ 23,269
Less accumulated depreciation	<u>(23,269)</u>			<u>(23,269)</u>
Total	<u>\$</u>			<u>\$</u>
Combined Totals				<u>\$ 715,303</u>

3(d) Accounts Payable

Payable detail at March 31, 2007, is as follows:

Accounts payable - vendors	\$ 7,055
Accounts payable - other government - PILOT	<u>9,850</u>
	<u>\$ 16,905</u>

3(e) Accrued Expenses

Accrued wage/payroll taxes payable	\$ 4,480
Accrued compensated absences-current portion	<u>2,573</u>
	<u>\$ 7,053</u>

3(f) Non-current Liabilities

Accrued compensated absences-noncurrent portion	<u>\$ 10,290</u>
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3(g) Interprogram Transactions and Balances

The Capital Fund Program transferred \$60,793 to the Low Rent Program during the fiscal year ended March 31, 2007.

There were no interprogram receivables or payables.

NOTE 4: OTHER INFORMATION

4(a) Pension Plan

The Housing Commission contributes to a S.E.P. retirement plan for its employees. Annual contributions are 5% of employee earnings and the employee is 100% vested immediately. The Housing Commission contributed \$3,573 during the fiscal year. By regulation, a S.E.P. plan must cover every employee who has attained the age of 21, has performed service for the Housing Commission in at least three of the preceding five years, and receives at least \$300 (indexed for inflation) of compensation in the current year. Employees are free to withdraw their contributions without restrictions, but penalties for early withdrawal apply.

4(b) Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks

that exceed their commercial coverage in the current year or the three prior fiscal years.

4(c) Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 5: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2007, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of net			
Assets			
Current assets	\$ 497,622	\$	\$
Capital assets	<u>711,351</u>	<u>3,952</u>	
Total assets	<u>\$ 1,208,973</u>	<u>\$ 3,952</u>	<u>\$</u>
Current liabilities	\$ 31,966	\$	\$
Noncurrent liabilities	<u>10,290</u>		
Total liabilities	<u>42,256</u>		
Net assets:			
Invested in capital assets	711,351	3,952	
Unrestricted net assets	<u>455,366</u>		<u>89,440</u>
Total net assets	<u>1,166,717</u>	<u>3,952</u>	<u>89,440</u>
Total liabilities and net assets	<u>\$ 1,208,973</u>	<u>\$ 3,952</u>	<u>\$ 89,440</u>

	Low Rent Program	Capital Fund Program	Housing Choice Vouchers
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Dwelling and nondwelling rents	\$ 174,928	\$	\$
Depreciation	(83,983)	(81)	
Other operating expenses	(213,110)		(404,682)
Operating(loss)	(122,165)	(81)	(404,682)
Nonoperating revenues:			
Investment earnings	11,248		
Other income	4,033		
Operating transfers in(out)	60,793	(60,793)	
Operating grants	47,207	60,793	471,227
Capital grants		4,033	
Change in net assets	1,116	3,952	66,545
Beginning net assets	1,165,601		22,895
Ending net assets	<u>\$ 1,166,717</u>	<u>\$ 3,952</u>	<u>\$ 89,440</u>

Condensed Statement of Cash Flows			
Net cash provided (used) by:			
Operating activities	\$ (38,980)	\$	\$ (404,682)
Noncapital financing activities	112,673		471,227
Capital and related financing activities	(667)		
Investing activities	11,248		
Net increase (decrease)	84,274		66,545
Beginning cash and cash equivalents	155,170		22,885
Ending cash and cash equivalents	<u>\$ 239,444</u>	<u>\$</u>	<u>\$ 89,430</u>

SUPPLEMENTARY INFORMATION

ROCKFORD HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM
 March 31, 2007

=====

C-3010	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash and cash equivalents	\$ 239,444	\$
Accounts receivable-miscellaneous		
Accounts receivable-tenants	203	
Investments-unrestricted	249,511	
Prepaid expenses	<u>8,464</u>	<u></u>
Total current assets	<u>497,622</u>	<u></u>

Capital assets:

Land	23,764	
Buildings	743,783	2,334
Equipment	133,569	1,699
Building improvements	<u>1,315,035</u>	<u></u>
	2,216,151	4,033
Less accumulated depreciation	<u>(1,504,800)</u>	<u>(81)</u>
Net capital assets	<u>711,351</u>	<u>3,952</u>
Total Assets	<u>\$ 1,208,973</u>	<u>\$ 3,952</u>

ROCKFORD HOUSING COMMISSION
 COMBINING STATEMENT OF NET ASSETS
 BY PROGRAM (CONTINUED)
 March 31, 2007
 =====

C-3010	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:		
Accounts payable	\$ 16,905	\$
Tenant security deposit liability	6,470	
Accrued expenses	7,053	
Deferred revenues	<u>1,538</u>	<u></u>
Total current liabilities	31,966	
Noncurrent liabilities:		
Accrued compensated absences	<u>10,290</u>	<u></u>
Total liabilities	<u>42,256</u>	<u></u>
Net Assets:		
Invested in capital assets	711,351	3,952
Unrestricted net assets	<u>455,366</u>	<u></u>
Total net assets	<u>1,166,717</u>	<u>3,952</u>
Total Liabilities and Net Assets	<u>\$1,208,973</u>	<u>\$ 3,952</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 16,905
	6,470
	7,053
<u> </u>	<u>1,538</u>
	31,966
<u> </u>	<u>10,290</u>
<u> </u>	<u>42,256</u>
	715,303
<u>89,440</u>	<u>544,806</u>
<u>89,440</u>	<u>1,260,109</u>
<u>\$ 89,440</u>	<u>\$ 1,302,365</u>

ROCKFORD HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS BY PROGRAM**
 Year Ended March 31, 2007

=====

	C-3010 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 172,576	\$
Nondwelling rent	<u>2,352</u>	<u> </u>
Total operating revenues	<u>174,928</u>	<u> </u>
OPERATING EXPENSES:		
Administration	65,789	
Tenant services	1,788	
Utilities	61,637	
Ordinary maintenance and operation	54,162	
General expenses	20,900	
Housing assistance payments		
Extraordinary maintenance	8,834	
Depreciation	<u>83,983</u>	<u>81</u>
Total operating expenses	<u>297,093</u>	<u>81</u>
Operating income(loss)	<u>(122,165)</u>	<u>(81)</u>
NONOPERATING REVENUES:		
Operating transfer in(out)	60,793	(60,793)
Investment interest income	11,248	
Other income	4,033	
Capital grants		4,033
Operating grants	<u>47,207</u>	<u>60,793</u>
Total nonoperating revenues	<u>123,281</u>	<u>4,033</u>
Change in net assets	1,116	3,952
Net assets, beginning	<u>1,165,601</u>	<u> </u>
Net assets, ending	<u><u>\$1,166,717</u></u>	<u><u>\$ 3,952</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
 \$	 \$ 172,576
<u> </u>	<u>2,352</u>
 <u> </u>	 <u>174,928</u>
 34,842	100,631
	1,788
	61,637
	54,162
586	21,486
369,254	369,254
	8,834
<u> </u>	<u>84,064</u>
 <u>404,682</u>	 <u>701,856</u>
 <u>(404,682)</u>	 <u>(526,928)</u>
	11,248
	4,033
	4,033
<u>471,227</u>	<u>579,227</u>
 <u>471,227</u>	 <u>598,541</u>
 66,545	71,613
<u>22,895</u>	<u>1,188,496</u>
 <u>\$ 89,440</u>	 <u>\$ 1,260,109</u>

ROCKFORD HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended March 31, 2007

=====

	C-3010 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 174,713	\$
Cash payments to other suppliers of goods and services	(120,415)	
Cash payments to employees for services	(84,099)	
Cash payments for in lieu of taxes	<u>(9,179)</u>	
Net cash (used) by operating activities	<u>(38,980)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	640	
Operating transfers in(out)	60,793	(60,793)
Operating grants	47,207	60,793
Other revenue	<u>4,033</u>	
Net cash provided by noncapital financing activities	<u>112,673</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		4,033
Payments for capital acquisitions	<u>(667)</u>	<u>(4,033)</u>
Net cash (used) by capital and related financing activities	<u>(667)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>11,248</u>	
Net cash provided by investing activities	<u>11,248</u>	
Net increase(decrease) in cash	84,274	
Cash and cash equivalents, beginning	<u>155,170</u>	
Cash and cash equivalents, ending	<u><u>\$ 239,444</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 174,713
(373,159)	(493,574)
(31,523)	(115,622)
	(9,179)
(404,682)	(443,662)
	640
471,227	579,227
	4,033
471,227	583,900
	4,033
	(4,700)
	(667)
	11,248
	11,248
66,545	150,819
22,885	178,055
\$ 89,430	\$ 328,874

ROCKFORD HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM (CONTINUED)
Year Ended March 31, 2007

=====

C-3010	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:

Operating income(loss)	\$ (122,165)	\$ (81)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	83,983	81
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(197)	
Prepaid expenses	(471)	
Increase (decrease) in liabilities:		
Accounts payable	(15)	
Accrued wage/payroll taxes payable	(454)	
Accrued compensated absences	(314)	
Accounts payable-PILOT	671	
Deferred revenues	(18)	
Net cash (used) by operating activities	<u>\$ (38,980)</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Totals
\$ (404,682)	\$ (526,928)
	84,064
	(197)
	(471)
	(15)
	(454)
	(314)
	671
	(18)
<u>\$ (404,682)</u>	<u>\$ (443,662)</u>

ROCKFORD HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2007
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 47,207
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2007	Capital Fund Program	14.872	64,826
	<u>Low Income Public Housing</u> <u>Major - Direct Program</u>		
2007	Housing Choice Vouchers	14.871	<u>471,227</u>
	Total		<u>\$ 583,260</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ROCKFORD HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended March 31, 2007
=====

FDS Line Item No.		C-3010 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 232,974	\$
114	Cash-tenant security deposits	<u>6,470</u>	<u></u>
100	Total cash	<u>239,444</u>	<u></u>
	Receivables:		
125	A/R-miscellaneous		
126	A/R-tenants-dwelling rents	<u>203</u>	<u></u>
120	Total receivables, net of allowance for doubtful accounts	<u>203</u>	<u></u>
131	Investments-unrestricted	<u>249,511</u>	<u></u>
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>8,464</u>	<u></u>
150	Total current assets	<u>497,622</u>	<u></u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	23,764	
162	Buildings	743,783	2,334
163	Furn, equip & mach-dwellings	53,512	
164	Furn, equip & mach-admin.	80,057	1,699
165	Building improvements	1,315,035	
166	Accumulated depreciation	<u>(1,504,800)</u>	<u>(81)</u>
160	Total fixed assets, net of accumulated depreciation	<u>711,351</u>	<u>3,952</u>
180	Total noncurrent assets	<u>711,351</u>	<u>3,952</u>
190	Total Assets	<u>\$ 1,208,973</u>	<u>\$ 3,952</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 89,430	\$ 322,404
<u> </u>	<u>6,470</u>
<u>89,430</u>	<u>328,874</u>
10	10
<u> </u>	<u>203</u>
<u>10</u>	<u>213</u>
<u> </u>	<u>249,511</u>
<u> </u>	<u>8,464</u>
<u>89,440</u>	<u>587,062</u>
	23,764
	746,117
	53,512
23,269	105,025
	1,315,035
<u>(23,269)</u>	<u>(1,528,150)</u>
<u> </u>	<u>715,303</u>
<u> </u>	<u>715,303</u>
<u>\$ 89,440</u>	<u>\$ 1,302,365</u>

ROCKFORD HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)

Year Ended March 31, 2007

=====

FDS Line Item No.		C-3010 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 7,055	\$
321	Accrued wage/payroll taxes payable	4,480	
322	Accrued compensated absences-current portion	2,573	
333	Accounts payable-other government	9,850	
341	Tenant security deposits	6,470	
342	Deferred revenues	<u>1,538</u>	
310	Total current liabilities	31,966	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>10,290</u>	
300	Total liabilities	<u>42,256</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>711,350</u>	<u>3,952</u>
508	Total invested in capital assets	711,350	3,952
512.1	Unrestricted net assets	<u>455,367</u>	
513	Total Net Assets	<u>1,166,717</u>	<u>3,952</u>
600	Total Liabilities and Net Assets	<u>\$ 1,208,973</u>	<u>\$ 3,952</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 7,055
	4,480
	2,573
	9,850
	6,470
	<u>1,538</u>
	31,966
	<u>10,290</u>
	<u>42,256</u>
	<u>715,302</u>
	715,302
<u>89,440</u>	<u>544,807</u>
<u>89,440</u>	<u>1,260,109</u>
<u>\$ 89,440</u>	<u>\$ 1,302,365</u>

ROCKFORD HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2007
=====

FDS Line Item No.		C-3010 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 172,576	\$
704	Tenant revenue-other	<u>2,352</u>	<u> </u>
705	Total tenant revenue	174,928	
706	HUD PHA grants	47,207	60,793
706.1	Capital grants		4,033
711	Investment income-unrestricted	11,248	
715	Other income	<u>4,033</u>	<u> </u>
700	Total revenue	<u>237,416</u>	<u>64,826</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	42,707	
912	Auditing fees	2,500	
914	Compensated absences	(314)	
915	Employee benefit contributions-adm.	9,705	
916	Other operating-administrative	11,191	
	Tenant Services:		
924	Tenant services-other	1,788	
	Utilities:		
931	Water	8,306	
932	Electricity	41,398	
933	Gas	11,933	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	25,220	
942	Ordinary maint & oper-mat'ls & other	5,663	
943	Ordinary maint & oper-contract costs	17,580	
945	Employee benefit contributions	5,699	
	General expenses:		
961	Insurance premiums	11,050	
963	Payments in lieu of taxes	<u>9,850</u>	<u> </u>
969	Total operating expenses	<u>204,276</u>	<u> </u>
970	Excess operating revenue over operating expenses	<u>33,140</u>	<u>64,826</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 172,576
	<u>2,352</u>
	174,928
471,227	579,227
	4,033
	11,248
	<u>4,033</u>
<u>471,227</u>	<u>773,469</u>
29,283	71,990
1,250	3,750
	(314)
2,240	11,945
2,069	13,260
	1,788
	8,306
	41,398
	11,933
	25,220
	5,663
	17,580
	5,699
586	11,636
	<u>9,850</u>
<u>35,428</u>	<u>239,704</u>
<u>435,799</u>	<u>533,765</u>

ROCKFORD HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2007
=====

FDS Line Item No.		C-3010 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	8,834	
973	Housing assistance payments		
974	Depreciation expense	<u>83,983</u>	<u>81</u>
	Total other expenses	<u>92,817</u>	<u>81</u>
900	Total expenses	<u>297,093</u>	<u>81</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(59,677)	64,745
	Other Financing Sources(Uses)		
1001	Operating transfers in (out)	<u>60,793</u>	<u>(60,793)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	1,116	3,952
1103	Beginning Net Assets	<u>1,165,601</u>	<u></u>
	Ending Net Assets	<u>\$ 1,166,717</u>	<u>\$ 3,952</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
	8,834
369,254	369,254
	<u>84,064</u>
<u>369,254</u>	<u>462,152</u>
<u>404,682</u>	<u>701,856</u>
66,545	71,613
66,545	71,613
<u>22,895</u>	<u>1,188,496</u>
<u>\$ 89,440</u>	<u>\$ 1,260,109</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Rockford Housing Commission
Rockford, Michigan

I have audited the financial statements of the business-type activities of Rockford Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated July 12, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Rockford Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated July 12, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Standish, CPA

July 12, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Rockford Housing Commission
Rockford, Michigan

Compliance

I have audited the compliance of Rockford Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Rockford Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary Standeth, RA, PC

July 12, 2007

ROCKFORD HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
March 31, 2007

=====

There were no prior year audit findings.

ROCKFORD HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2007
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No
 - b. Reportable condition(s) identified that are not a material weakness(es)? No
3. Noncompliance material to financial statements noted? No
4. Is a "going concern" explanatory paragraph included in the audit report? No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness(es) identified? No
 - b. Reportable condition(s) that are not considered to be material weakness(es)? No
2. Type of auditor's report issued on compliance for major programs: Qualified
3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.871	Housing Choice Vouchers	<u>\$ 471,227</u>	Yes	E	N/A	06-1
*	The threshold for distinguishing Types A and B programs was \$300,000.					
*	The Housing Commission was determined to be a low-risk auditee.					

ROCKFORD HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2007
=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

ROCKFORD HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2007

ROCKFORD HOUSING COMMISSION
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MARCH 31, 2007

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Rockford Housing Commission

I have audited the financial statements of the Rockford Housing Commission ("Housing Commission") as of and for the year ended March 31, 2007, and have issued my report, thereon, dated July 12, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments that were necessary to make.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Samy E. Landolt, CPA, PC

July 12, 2007

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

731 South Garfield Avenue
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Rockford Housing Commission

I have audited the financial statements of the Rockford Housing Commission ("Housing Commission") as of and for the year ended March 31, 2007, and have issued my report, thereon, dated July 12, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

July 12, 2007

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

March 31, 2007

=====

06-1: Housing Choice Voucher Program Tenant File Testing

Condition and Criteria: Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the voucher or if the program is being run correctly without proper and complete documentation.

Cause: The staff in charge of this program did not obtain 100% of the correctly completed documentation.

Population and Items Tested: We started with the 8th tenant file and selected every thirteenth one after that until a total of six files were selected to be tested from an Ad-hoc Tenant Report provided by the Rockford Housing Commission. We selected 6 tenant files to test from a population of 80 tenant files to select from.

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

=====

06-1: Housing Choice Voucher Program Tenant File Test (continued)

We found the following errors in the documentation in the tenant files:

	<u># of Errors</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for the fiscal year not in the tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	6
5. Incorrect Verification of Assets	4
6. Inspection Report missing for fiscal year or was incorrect	0
7. Lease missing or incorrect	1
8. Application missing or incorrect	0
9. Copy of Photo I.D. missing	1
10. Copy of Proof of Social Security Number Verification missing	0
11. Copy of Birth Certificate missing	3
12. Annual Review not done for fiscal year or not documented	0
13. Worksheet for HUD-50058 missing or incorrect	0
14. Notice of Rent Adjustment missing or incorrect	0
15. Criminal Background Check not done, not documented, or it was in the file	1
16. Declaration of 214 Status missing or incorrect	6
17. Lead Based Paint Disclosure missing or incorrect	2
18. Check for Previous Eviction from Public Housing not done or incorrect	0
19. Request for Tenancy Approval not done or incorrect	0
20. Voucher not in file or it was incorrect	0
21. HAP Contract missing or incorrect	0
22. HAP Tenancy Addendum missing	2
23. Rent Reasonableness Test missing or incorrect	0
24. Inspection-Life Threatening Corrections Made > 24 Hours	0
25. Inspection-Non-Life Threatening Corrections Made > 30 Days or Past Extension	0
26. Proper Action not Taken if (24) or (25) Was Violated	0
27. Annual Family Composition Review missing or incorrect	6
Total	<u>32</u>

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

=====

06-1: Housing Choice Voucher Program Tenant File Test (Continued)

Out of a possible 162, there were 32 exceptions from this test. This represents an exception rate of 19.75%.

Six tenant files were looked at and applicable to this review.

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	V-010-0151			x					x	
2	V-009-0121-01			x					x	
3	V-150-04			x					x	
4	V-024-0104			x					x	
5	V-024-0138	x		x					x	
6	0114			x					x	
Number of Hits		<u>1</u>	<u>0</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>0</u>
% of Hits		<u>17%</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted, or it was in the tenant files. It may not be kept in the tenant files unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset Verification not conducted or was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD-Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

=====

06-1: Housing Choice Voucher Program Tenant File Test (Continued)

Auditor's Recommendation: It is recommended that the Rockford Housing Commission continue the process of correcting the tenant files where possible. It is further recommended that the Rockford Housing Commission improve their waiting list documentation. It is believed that the new tenants to the program were selected correctly from the waiting list, based on the available documentation. To improve the documentation, it is recommended that a current waiting list by preference be placed in the new tenants file. If they are listed first, nothing else needs to be done. If they are not first on the waiting list, there should be an explanation for each applicant above them as to why they were not selected.

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

=====

06-2: Housing Choice Voucher Program Tenant File Test

Condition and Criteria: During the testing of the tenant files, it was discovered that there was not proper verification of expenses and assets.

Effect: Tenants may have been charged the wrong rents.

Cause: The staff member in charge of this program did not obtain information on possible tenant expenses and assets, did not perform the verifications, the verifications were too old, did not transfer the verification information to the HUD worksheet, or transferred the wrong amount onto the worksheet.

Population and Items Tested: Out of the six files tested out of a population of 80, none of the six had all of the necessary verifications. This represents an exception rate of 100%.

Auditor's Recommendation: It is recommended that the staff obtain and document tenant assets and expenses. The staff should then obtain verifications of these expenses and assets. Whenever possible, these should be independent third party written verifications.

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

=====

06-3: Housing Choice Voucher Program Tenant File Test (Continued)

Condition and Criteria: During testing of the tenant files, it was discovered that documentation was missing in the tenant files.

Effect: Ineligible tenants may be in the program or tenants may have been charged the wrong rents.

Cause: The staff member in charge of this program did not obtain the documentation.

Population and Items Tested: Out of the six files tested out of a population of 80, none of the six had all of the documentation. This represents an exception rate of 100%.

Auditor's Recommendation: It is recommended that the Rockford Housing Commission obtain properly completed 214 (citizenship) declaration forms and document family composition for all tenants. The 214 declaration only needs to be done once for each household member, but the documentation of family composition must be done annually. It should also be noted that during a review of a public housing file, these documents were missing in it as well. The recommendations made above apply to the public housing program as well.

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

=====

06-4: Financial Management Miscellaneous Comments

Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Certificate of Deposits

The Housing Commission has several Certificate of Deposits.

We recommend the Housing Commission implement a procedure of having the bank type, "two signatures required to withdraw the CD", on the certificate of deposit. This would provide an internal control to further safeguard the Housing Commission's assets.

Tenant Deposits

The tenant rents are collected by the occupancy clerk and the deposit ticket is also prepared by the occupancy clerk. The Executive Director makes the deposit at the end of each day, usually.

We recommend that the occupancy clerk prepare an adding machine tape of the money given to the Executive Director and then review the bank receipt and/or deposit ticket after the deposit is made for the correct amount. The occupancy clerk would initial the bank receipt showing that a review comparison was made. The adding machine tape, deposit ticket and receipts would be filed together.

Check Signers

The Housing Commission's check signers include all five commissioners and the Executive Director.

We recommend that the Housing Commission **consider** having only three check signers, the Executive Director, the Board President, and the Vice-President.

ROCKFORD HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

March 31, 2007

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06-4: Financial Management Miscellaneous Comments (Continued)

Invoice Approval By The Board

The State of Michigan requires that the Board approve all invoices prior to payment. All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the Charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

The entire Housing Commission Board does not approve invoices before payment, but follows the following steps:

- ...The Executive Director prepares the checks using HDS check writing software.
- ...Once a week, a Board Commissioner will come in and review the invoices and sign the check and then the check is mailed.
- ...At the monthly Board meetings, the Board reviews a paid check listing and have the opportunity to request to examine the supporting documentation.

Although, this check writing process, appears to be adequate, we recommend that the Housing Commission add one more internal control. The Housing Commission could segregate the duties of writing the checks by having another staff member(a noncheck signer) prepare the checks from the invoices.

Also, the Housing Commission should adopt a check writing policy.

Flowers

The Housing Commission has on occasion purchased flowers for the sick or departed.

The Michigan Department of Treasury considers buying flowers, using Housing Commission funds, for the sick or departed to be an unauthorized expenditure.

ROCKFORD HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
March 31, 2007

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no audit adjusting journal entries.